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Legislative Audit Division

State of Montana

Report to the Legislature

December 2006

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2006

Montana Facility Finance Authority

A component unit of the state of Montana

We performed a financial-compliance audit of the Montana Facility Finance Authority for the two fiscal years ended June 30, 2006. This report contains the audited financial statements and accompanying notes for each of the two fiscal years ended June 30, 2006 and 2005. We issued an unqualified opinion on the Authority's financial statements. The opinion means the reader may rely on the financial statement information presented.

This report does not contain any recommendations.

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FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2007, will be issued by March 31, 2008. The Single Audit Report for the two fiscal years ended June 30, 2005, was issued on March 6, 2006. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
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LEGISLATIVE AUDIT DIVISION

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Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

December 2006

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Montana Facility Finance Authority (Authority) for the two fiscal years ended June 30, 2006. The objectives of the audit were to determine the Authority's compliance with applicable laws and regulations, obtain an understanding of the Authority's internal controls and if appropriate, make recommendations for improvement, and determine if the Authority's financial statements present fairly its financial position, results of operations, and cash flows for the two fiscal years ended June 30, 2006.

This audit report contains our Independent Auditor's Report on the financial statements of the Montana Facility Finance Authority of the Department of Commerce, as shown on page A-1. Management's Discussion and Analysis, and the audited financial statements follow the Independent Auditor's Report. The report contains no recommendations. The previous audit report also contained no recommendations.

The Authority is administratively attached to the Department of Commerce. The Authority provides access to various debt financing or refinancing instruments at reduced rates to Montana nonprofit private and public health care institutions or prerelease centers for purchases of capital equipment and buildings.

The Authority administers seven programs:

- Direct Loan Program – Authority funds that provide short-term loans up to five years, in amounts of $200,000 or less, to eligible facilities for construction, renovation, acquisition, equipment purchases, and the refinancing of outstanding debt.
- Equipment Revenue Note Program – provides financing for acquisition and installation of equipment. Notes are privately placed with investors for the useful life of the equipment.
- Master Loan Program – loan proceeds from tax exempt bond issuances with negotiable terms and may be used to finance new construction projects with negotiable terms, refinance outstanding bonds, acquire real property, purchase equipment, or reimburse borrowers for prior capital expenditures.

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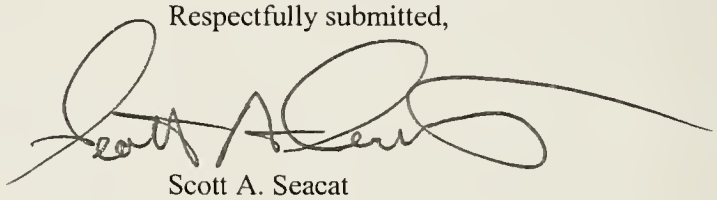
- Trust Fund Loan Program – provides loans to eligible facilities for capital projects. The Legislature authorized the Authority to lend up to $15 million of the Permanent Coal Tax Trust Funds. Loans are made for periods up to 20 years.
- Stand Alone Bond Program – issues tax-exempt bonds or notes for individual borrowers for terms up to 40 years.
- Variable Rate Program – provides low, variable interest rate loans from a revolving bond issuance for eligible institutions to finance or refinance land, buildings, equipment, and related capital costs through November 20, 2020.
- Montana Capital Assistance Program – a grant program from Authority funds to help smaller hospitals deal with changing needs and services by providing funding for capital improvement plans, which are used to establish infrastructure priorities and to examine funding options for renovations and improvements.

The Authority's Executive Director reviewed and agreed with the contents of this report and chose not to respond in writing. We would like to thank the Executive Director and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,



Scott A. Seacat
Legislative Auditor

Appointed and Administrative Officials

Board Members

	Profession	Term Expires
Jon Marchi, Chair Polson	Venture Capital/Ranching	2009
Richard (Dick) King Missoula	Missoula Area Economic Development	2009
Larry Putnam Malta	Hospital Administrator	2009
James W. (Bill) Kearns Townsend	Banker	2009
John Bartos Hamilton	Hospital Administrator	2007
John Dudis Kalispell	Attorney	2007
Joe Quilici Butte	Former Business Owner Former State Legislator	2007

Administrative Staff

Michelle Barstad, Executive Director

Connie Onstad, Associate Director

Teri Juneau, Accountant

For additional information concerning the Montana Facility Finance Authority contact Michelle Barstad at:

Montana Facility Finance Authority
Department of Commerce
2401 Colonial Drive, Third Floor
PO Box 200506
Helena MT 59620-0506
(406) 444-0259

e-mail: mbarstad@mt.gov

Members of the audit staff involved in this audit Laurie Barrett, Jean Carstensen-Garrett, Paul J. O'Loughlin, and Vickie Rauser.

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LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
Tori Hunthausen,
Chief Deputy Legislative Auditor

Deputy Legislative Auditors:
James Gillett
Jim Pellegrini

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Statement of Net Assets - Enterprise Fund of the Montana Facility Finance Authority, a component unit of the State of Montana, as of June 30, 2006 and 2005, and the related Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows for the fiscal years then ended. The information contained in these financial statements is the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Montana Facility Finance Authority as of June 30, 2006, and 2005, and the results of operations and cash flows for the fiscal years then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

October 18, 2006

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Montana Facility Finance Authority
Management's Discussion and Analysis, Financial Statements and Notes

Montana Facility Finance Authority
Department of Commerce
A Component Unit of the State of Montana

Management's Discussion and Analysis

Years ended June 30, 2006 and 2005

The following represents Montana Facility Finance Authority (the "Authority") management's discussion and analysis of the Authority's financial performance during the fiscal years ended June 30, 2006 and 2005. Please read it in conjunction with the Authority's financial statements and accompanying notes.

Financial Highlights

- The Authority closed bonds/note issues:
  8 ($148,379,000) in FY 2006 and 2 ($13,750,000) in FY 2005
- The Authority made loans from a revolving bond issue:
  1 loan ($1,100,000) in FY 2006 and 1 loan ($1,200,000) in FY 2005
- The Authority made loans out of reserves designated for such purpose:
  6 loans ($518,715)in FY 2006 and 5 loans ($292,618) in FY 2005
- The Authority has a grant program which was expanded in FY 2005 to $60,000 annually:
  During FY 2006, $60,000 was committed and $46,040 was expensed,
  During FY 2005, $60,000 was committed and $24,458 was expensed
- The Authority's total outstanding bonds/notes/loans increased to $683,209,943 in FY 2006 from $660,098,368 in FY 2005and $679,532,377 in FY 2004

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Montana Facility Finance Authority's basic financial statements comprise two components, basic financial statements, and notes to the financial statements. The Authority is a self-supporting entity and follows enterprise fund reporting. Accordingly, the financial statements are presented using the accrual basis of accounting.

Overall financial condition of the Authority improved from FY 2004 to FY 2005 and again in FY 2006 based on an increase in Net Assets. Increased activity in 2006 resulted in additional income and investment earnings and allowed the Authority to expand the grant program.

Basic Financial Statements

The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Montana Facility Finance Authority is improving or deteriorating. The Statement of Revenues, Expenses, and Changes in Fund Net Assets presents revenues earned and expenses incurred during the year

and classifies activities as either "operating" or "non-operating". The Statement of Cash Flows presents information related to cash inflows and outflows, categorized by operating and investing activities. The reconciliation of operating income to cash provided by operating activities explains the relationship between the Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Fund Net Assets, showing that increases and decreases in operating assets often require the use or receipt of cash but do not result in recognition of revenue or an expense.

The basic financial statements can be found beginning on page A-5 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the financial statements can be found beginning on page A-9 of this report.

Financial Analysis of the Authority

Condensed financial statements are presented below.

	2006	2005	2004
Total assets	2,782,190	2,519,423	2,456,114
Total liabilities	72,658	35,228	38,020
Invested in Capital Assets	45	228	448
Total unrestricted net assets	2,709,487	2,483,967	2,417,646
Total operating revenues	445,306	280,199	311,840
Operating expenses:			
Personal services	162,582	149,249	153,557
Contracted services	44,837	34,578	30,632
Other operating expenses	69,985	68,113	70,721
Grants	46,040	24,458	17,184
Total operating expenses	323,444	276,398	272,095
Operating income	121,862	3,801	39,744
Investment Earnings	103,475	62,300	40,091
Change in net assets	225,337	66,101	79,836

Administrative initial fees are charged to borrowers at the completion of a financing. Annual fees are charged on each bond issue and billed in arrears.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF NET ASSETS - ENTERPRISE FUND
JUNE 30, 2006 AND 2005

ASSETS:	*2006*	*2005*
Current Assets:		
Cash & Cash Equivalents (Note 2)	$ 1,874,242	$ 1,942,919
Interest Receivable	42	196
Accounts Receivable	56,259	33,488
Short Term Notes Receivable (Note 4)	261,556	203,315
Securities Lending Collateral (Note 2)	30,054	0
Due From Primary Government	0	2
Prepaid Expenses	262	947
Total Current Assets	2,222,415	2,180,867
Noncurrent Assets:		
Long Term Notes Receivable (Note 4)	559,730	338,328
Capital Assets (Note 1)	45	228
Total NonCurrent Assets	559,775	338,556
Total Assets	$ 2,782,190	$ 2,519,423
LIABILITIES:		
Liabilities:		
Current Liabilities:		
Accounts Payable	$ 9,720	$ 9,213
Due to Primary Government	2,395	1,750
Secuities Lending Liability (Note 2)	30,054	0
Compensated Absences	11,110	12,649
Total Current Liabilities	$ 53,279	$ 23,612
Noncurrent Liabilities:		
Compensated Absences	19,379	11,616
Total Noncurrent Liabilities	19,379	11,616
Total Liabilities	72,658	35,228
Net Assets		
Invested in Capital Assets Net of Related Debt	$ 45	$ 228
Total Unrestricted Net Assets	2,709,487	2,483,967
Total Net Assets (Note 6)	$ 2,709,532	$ 2,484,195
Total Net Assets and Liabilitites	$ 2,782,190	$ 2,519,423

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

	2006	*2005*
OPERATING REVENUES:		
Service Fees	$ 443,876	$ 280,199
Securities Lending Income	1,430	
Total Operating Revenues	$ 445,306	$ 280,199
OPERATING EXPENSES:		
Personal Services	$ 162,582	$ 149,249
Contracted Services	44,837	34,578
Supplies and Materials	8,507	2,794
Communications	4,193	3,268
Travel	9,066	18,985
Rent	17,437	16,242
Repairs and Maintenance	376	498
Other Expenses	28,799	26,106
Depreciation - Equipment	183	220
Securities Lending Expense	1,424	0
Grants	46,040	24,458
Total Operating Expenses	$ 323,444	$ 276,398
Operating Income	$ 121,862	$ 3,801
NON OPERATING REVENUES (EXPENSES)		
Investment Earnings	103,475	62,300
Change in net assets	$ 225,337	$ 66,101
Net Assets Beginning of Period	$ 2,484,195	$ 2,418,094
Total Net Assets End of Period	$ 2,709,532	$ 2,484,195

The accompanying notes to the financial statements are an integral part of this statement.

MONTANA FACILITY FINANCE AUTHORITY
DEPARTMENT OF COMMERCE
A COMPONENT UNIT OF THE STATE OF MONTANA
STATEMENT OF CASH FLOWS
ENTERPRISE FUND
FOR FISCAL YEARS ENDED JUNE 30, 2006 AND 2005

CASH FLOWS FROM OPERATING ACTIVITIES:	*2006*	*2005*
Receipts for Sales and Services	$ 421,079	$ 249,237
Payments to Suppliers for Goods and Services	(158,448)	(130,958)
Payments to Employees	(155,301)	(146,129)
Net Cash Provided by (Used for) Operating Activities	$ 107,330	$ (27,850)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Cash Payments for Loans	$ (497,644)	$ (293,617)
Collection for Principal on Loans	218,002	206,789
Proceeds from Securities Lending Income	1,430	0
Payments of Securities Lending Costs	(1,424)	0
Interest on Investments	103,629	62,540
Net Cash Provided by (Used for) Investing Activities:	$ (176,007)	$ (24,288)
Net Increase (Decrease) in Cash and Cash Equivalents	$ (68,677)	$ (52,138)
Cash & Cash Equivalents, July 1	$ 1,942,919	$ 1,995,057
Cash & Cash Equivalents, June 30	$ 1,874,242	$ 1,942,919
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ 121,862	$ 3,801
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:		
Depreciation	183	220
Securities Lending Expense	1,424	0
Securities Lending Income	(1,430)	0
Change in Assets & Liabilities:		
Increase (Decrease) in Accounts Payable	507	(2,738)
Decrease (Increase) in Interest Receivable	0	0
Increase (Decrease) in Due to Primary Government	646	(1,816)
Increase (Decrease) in Deferred Revenue	0	0
Increase (Decrease) in Compensated Absences Payable	7,762	2,363
Increase (Decrease) in Compensated Absences Payable-Current	(1,540)	(601)
Decrease (Increase) in Accounts Receivable	(22,772)	(30,987)
Decrease (Increase) in Prepaid Expense	686	1,906
Decrease (Increase) in Due From Primary Government	2	2
Total Adjustments	$ (14,532)	$ (31,651)
Net Cash Provided by (Used for) Operating Activities	$ 107,330	$ (27,850)

The accompanying notes to the financial statements are an integral part of this statement.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Montana Facility Finance Authority (the "Authority") Enterprise Fund uses the accrual basis of accounting in accordance with Generally Accepted Accounting Principles. Under this basis, revenues are recognized in the accounting period when realizable, measurable, and earned. Expenses are recognized in the period incurred, when measurable.

Reporting Entity

The preceding financial statements are prepared from the Statewide Accounting Budgeting Human Resource System (SABHRS) and include the financial activity of the Authority's account in the Enterprise Fund. These statements are summaries of entries in the accounting records for the Authority and exclude any entries recorded for other agencies. Accordingly, these financial statements are not intended to fairly present the financial position, results of operations, or cash flow of the State of Montana. The Authority is a component unit of the State of Montana.

Nature of Fund

The fund maintained by the Authority, which conforms with authorizing legislation and Authority resolutions, is described as follows:

> The Enterprise Fund is used to account for operations financed and operated similar to private business enterprises, where the intent of the legislature is that costs are to be financed or recovered primarily through user charges.

Capital Assets

Capital assets are carried at cost less accumulated depreciation. Depreciation is provided for by using the straight-line method over the respective estimated useful lives of the assets.

Compensated Absences

Permanent employees are allowed to accumulate and carry over into a new calendar year a maximum of two times their annual accumulation of vacation leave. Upon termination, qualifying employees having unused accumulated vacation and sick leave receive 100 percent payment for vacation and 25 percent payment for sick leave. The accompanying financial statements reflect that liability.

2. Cash, Cash Equivalents, and Investments

Cash and Cash Equivalents

Cash and Cash Equivalents as presented on the accompanying Statement of Net Assets and Statement of Cash Flows represents the Authority's cash of $41,667 and $15,986 as of June 30, 2006 and 2005 respectively, and cash equivalents invested in the Board of Investments of the State of Montana Short-Term Investment Pool (STIP) of $1,832,575 and $1,926,933 for fiscal year 2006 and 2005, respectively. The Enterprise Fund invests its residual funds, by law, in STIP. STIP is considered an external investment pool. An external investment pool is defined as an arrangement that pools the monies of more than one legally separate entity and invests, on the participants behalf, in an investment portfolio. STIP is also classified as a 2a7-like pool. A 2a7-like pool is an external investment pool that is not registered with the Securities and Exchange Commission (SEC) as an investment company, but has a policy that will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. If certain conditions are met, 2a7-like

pools are allowed to use amortized cost rather than fair value to report net assets to compute unit values. The Board of Investments of the State of Montana (the "BOI") has adopted a policy to treat STIP as a 2a7-like pool. Cash and cash equivalents are defined as a short-term, highly liquid investment that is readily convertible to known amounts of cash.

Securities Lending

Under the provisions of state statutes, the BOI has, via a Securities Lending Authorization Agreement, authorized the custodial bank, State Street Bank and Trust, to lend the BOI's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the BOI receives a fee and the custodial bank must initially receive collateral equal to 102 percent of the fair value of the loaned securities and maintain collateral equal to not less than 100 percent of the fair value of the loaned security. The BOI retains all rights and risks of ownership during the loan period.

During fiscal year 2006, State Street loaned, on behalf of the BOI, certain securities held by State Street, as custodian, and received U.S. dollar currency cash, U.S. government securities, and irrevocable bank letters of credit. State Street does not have the ability to pledge or sell collateral securities unless the borrower defaults.

The BOI did not impose any restrictions during fiscal year 2006 on the amount of the loans that State Street made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during fiscal year 2006. Moreover, there were no losses during fiscal year 2006 resulting from a default of the borrowers or State Street.

During fiscal year 2006, the BOI and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested, together with the cash collateral of other qualified plan lenders, in a collective investment pool, the Securities Lending Quality Trust which has a weighted average maturity of 56 and 35 days, respectively, as of June 30, 2006. The relationship between the average maturities of the investment pool and the BOI loans was affected by the maturities of the loans made by other plan entities that invested cash collateral in the collective investment pool, which the BOI could not determine. At year-end, the BOI has no credit risk exposure to borrowers because the amounts the BOI owes the borrowers exceed the amounts the borrowers owe the system.

As of June 30, 2006, the Authority maintained security lending cash collateral of 30,054. None existed at June 30, 2005.

Investment Risk Disclosures

Effective June 30, 2005, the Authority implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 40 – Deposit and Investment Risk Disclosures. The required GASB 40 risk disclosure for the authority is described below.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The Authority's investment is limited to STIP managed by the BOI. The Authority does not have a policy related to STIP investments. The BOI's policy requires that STIP securities have the highest investment grade rating in the short term category by at least one Nationally Recognized Statistical Rating Organizations (NRSRO). The six NRSRO's include Standard and Poors, Moody's, Duff and Phelps, Fitch, and Thompson's Bank Watch. Although the STIP investments have been rated by investment security type, STIP, as an external investment pool, has not been rated by the NRSRO.

3. Revenue Bonds and Notes Payable

Resolutions adopted by the Authority have provided for trust and other agreements that establish specific funds to account for the proceeds of the various bond and note issues, mortgage and revenue notes receivable, debt service payments, payments by Borrowers, construction costs, and issuance costs. Specific funds established by agreements are held by trustees, or other participating financial institutions for the purpose of security and liquidity. Revenues are collected and disbursements made only in accordance with the provisions of applicable bond and note documents.

Most loans financed with bond proceeds are secured by first mortgages or security interests in the land, buildings, and related facilities and equipment financed by the Authority and utilized by the Borrower. Other loan payments are secured by a Master Note issued under a Master Trust Indenture of an Obligated Group or by standby letters of credit from financial institutions rated "A" or better. These liabilities do not constitute a general obligation debt or liability to the state of Montana, or any political subdivision thereof and accordingly, do not appear on the Statement of Net Assets.

The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997[1] are special obligations of the state, payable solely from the facility revenue of the Montana State Hospital and the Montana Mental Health Nursing Center, both owned by the state and operated by the Montana Department of Public Health and Human Services. The Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003[2] (which refunded the Health Care Revenue Bonds (Montana Developmental Center Project) Series 1994) are special obligations of the state, payable solely from the facility revenue of the Montana Developmental Center, which is owned by the state and operated by the Montana Department of Public Health and Human Services. The Health Care Revenue Bonds (Montana State Hospital Project) Series 1997[1] and the Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003[2] do not constitute a general obligation debt of the state or obligate the state to appropriate or apply any funds or revenue of the state, other than the respective facility revenue and each of such bond issues are reflected in the State of Montana Basic Financial Statements.

Revenue Bonds Payable:

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2006	Outstanding June 30, 2005
Health Care Variable Rate Revenue Bonds (Pooled Loan Program) Series 1985A	1985-2020	Variable	35,900,000	35,900,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 A&B	1991-2016	Variable	26,400,000	28,200,000
Hospital Facilities Revenue Bonds (Billings Deaconess Medical Center) Series 1991 C	1991-2017	Variable	20,600,000	21,650,000
Hospital Facilities Revenue Bonds (Hospital Pooled Loan Program) Series 1992	1992-2007	Fixed	480,000	700,000
Health Care Revenue Bonds (Richland Opportunities, Inc. Project) Series 1993	1993-2013	Fixed	97,926	109,245
Hospital Revenue Bonds (Deaconess-Billings Clinic Health System Project) Series 1994	1994-2025	Variable	58,515,000	58,870,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lutheran Retirement Home, Inc. Project) Series 1994B	1994-2014	Fixed	1,280,000	1,385,000
Health Care Facilities Revenue Bonds (Master Loan Program-Northern Montana Obligated Group Project) Series 1995A	1995-2015	Fixed	0	3,475,000
Health Care Facilities Revenue Bonds (Northern Montana Care Center Project) Series 1995B	1995-2015	Fixed	0	4,300,000
Health Care Facilities Revenue Bonds (Master Loan Program Marcus Daly Memorial Hospital Project) Series 1996B	1996-2011	Fixed	910,000	1,035,000
Health Care Facilities Revenue Bonds (Master Loan Program Glendive Medical Center Project) Series 1996C	1996-2011	Fixed	775,000	885,000

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2006	Outstanding June 30, 2005
Revenue Bonds (Mission Ridge Project) Series 1996 A,B,C	1996-2026	Fixed	0	5,295,000
Health Care Revenue Bonds (Community Medical Center, Inc.) Series 1996	1996-2018	Fixed	15,815,000	16,560,000
Hospital Facilities Revenue Bonds (Sisters of Providence of MT Obligated Group-Benefis Health Care) Series 1996	1996-2011	Fixed	5,225,000	5,955,000
Hospital Facilities Revenue Bonds (St. Peter's Community Hospital Project) Series 1997	1997-2011	Fixed	8,490,000	9,930,000
Development Disability Facility Revenue Bonds (Beartooth Industries Project) Series 1997	1997-2024	Fixed	207,507	214,630
Prerelease Center Revenue Bonds (Alternatives, Inc. Project) Series 1997	1997-2017	Fixed	2,070,000	2,195,000
Health Care Revenue Bonds (Montana State Hospital) Project) Series 1997[1]	1997-2022	Fixed	20,710,000	21,555,000
Health Care Facilities Revenue Bonds (Master Loan Program-Big Horn Hospital Association Project) Series 1998A	1998-2018	Fixed	1,005,000	1,065,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Nursing Home Project) Series 1998B	1998-2018	Fixed	1,215,000	1,290,000
Health Care Facilities Revenue Bonds (Master Loan Program-North Valley Hospital Project) Series 1998C	1998-2008	Fixed	0	780,000
Health Care Facilities Revenue Bonds (Master Loan Program-Lewis & Clark County Office Project) Series 1998D	1998-2018	Fixed	605,000	640,000
Revenue Bonds (Sisters of Charity of Leavenworth Health Services Corp.) Series 1998	1998-2024	Fixed	125,665,000	128,175,000
Developmental Disability Facilities Revenue Bonds (Opportunity Resources, Inc. Project) Series 1998	1998-2018	Fixed	186,735	306,177
Hospital Facilities Revenue Bonds (Kalispell Regional Hospital Project) Series 1998	1998-2018	Fixed	11,555,000	12,860,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 1998	1998-2018	Fixed	9,545,000	10,120,000
Prerelease Center Revenue Bonds (Missoula Correctional Services Project) Series 1998A	1998-2018	Fixed	4,280,000	4,525,000
Prerelease Center Revenue Bonds (Great Falls Prerelease Services, Inc. Project) Series 1998B	1998-2013	Fixed	790,000	870,000
Revenue Bonds (Providence Services) Series 1999	1999-2026	Fixed	0	25,025,000
Health Care Facilities Revenue Refunding & Improvement Bonds (Sidney Health Center) Series 1999	1999-2029	Fixed	9,590,000	9,955,000
Health Care Facilities Revenue Bonds (Master Loan Program-Marcus Daly Memorial Hospital Corporation Project) Series 2000	2000-2020	Fixed	2,820,000	2,940,000
Revenue Bonds (Hillcrest Senior Living Project) Series 2000	2000-2030	Fixed	0	16,480,000
Prerelease Center Revenue Bonds (Boyd Andrew Prerelease) Series 2000	2000-2020	Fixed	1,890,000	1,970,000
Hospital Facilities Revenue Bonds (Kalispell Regional Medical Center) Series 2001	2001-2016	Fixed	17,435,000	18,510,000
Health Care Facilities Revenue Bonds (Master Loan Program-Community Medical Center Project) Series 2001 A&B	2001-2021	Fixed	4,815,000	4,990,000
Variable Rate Demand Revenue Bonds (Mission Ridge Project) – Series 2002	2002-2027	Variable	13,515,000	13,865,000
Revenue Bonds (Providence Services) Series 2002	2002-2025	Fixed	22,395,000	71,025,000
Health Care Revenue Refunding Bonds (Montana Developmental Center Project) Series 2003[2]	2003-2019	Fixed	9,855,000	10,425,000

Issue	Period Outstanding	Type of Interest Rate	Outstanding June 30, 2006	Outstanding June 30, 2005
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System Project) Series 2003	2003-2035	Variable	39,210,000	39,210,000
Hospital Facilities Revenue Bonds (Bozeman Deaconess Health Services Project) Series 2004	2004-2029	Fixed	10,165,000	11,440,000
Hospital Facilities Revenue Bonds (St. Peter's Hospital Project) Series 2004	2004-2024	Fixed	29,570,000	29,705,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services) Series 2004	2004-2014	Fixed	207,673	228,792
Health Care Facilities Revenue Bonds (Master Loan Program – Marias Medical Center Project) Series 2005A	2005-2028	Fixed	3,825,000	4,030,000
Health Care Facilities Revenue Bonds (Master Loan Program – Montana Children's Home and Hospital Project) Series 2005B	2005-2024	Fixed	9,275,000	9,720,000
Prerelease Center Revenue Bond (Boyd Andrew Community Services Project) Series 2005	2005-2021	Fixed	1,181,684	0
Revenue Refunding Bond (Mission Ridge Project) Series 2005	2005-2016	Fixed	2,907,668	0
Health Facilities Revenue Bonds (Bozeman Deaconess Health Services Obligated Group) Series 2005	2005-2035	Fixed	28,090,000	0
Developmental Disability Facility Revenue Bond (Spring Meadow Resources, Inc. Project) Series 2005	2005-2021	Fixed	586,742	0
Prerelease Center Revenue Bond (Great Falls Pre-Release Services, Inc. Project) Series 2005	2005-2021	Fixed	4,500,000	0
Health Care Facilities Revenue Refunding Bonds (Master Loan Program – Northern Montana Obligated Group Project) Series 2006A	2006-2016	Fixed	6,670,000	0
Variable Rate Demand Revenue Bonds (Sisters of Charity of Leavenworth Health System) Series 2006A	2006-2026	Variable	35,000,000	0
Revenue Bonds (Providence Health & Services) Series 2006B	2006-2026	Fixed	68,430,000	0
Total Revenue Bonds Payable			**$674,255,935**	**$648,363,844**

Stated maturities on Revenue Bonds Payable are as follows:

Maturing in Year Ended June 30, 20006	Bond Principal Payment (in thousands)
2007	$ 20,947
2008	22,890
2009	23,719
2010	24,795
2011-2035	581,905
Total	**$674,256**

The bonds are payable solely from loan repayments to be made by eligible facilities pursuant to loan agreements and, further, from the funds created by the indentures and investment earnings thereon.

Revenue Notes Payable:

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2006	Outstanding June 30, 2005
St. Patrick Hospital- Private Placement Revenue Note	1999-2010	6.06%	1,247,389	1,331,714
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	225,556	446,684
Community Medical Center- Private Placement Revenue Note	2001-2007	5.48%	0	26,137
St. Peter's Hospital-Private Placement Revenue Note	2001-2007	4.25%	347,420	876,289
St. Patrick Hospital-Private Placement Revenue Note	2002-2007	4.33%	249,422	569,697
St. Patrick Hospital-Private Placement Revenue Note	2002-2005	4.33%	286,408	654,174
Kalispell Regional Medical Center – Private Placement Revenue Note	2002-2010	4.65%	3,244,908	3,976,905
Kalispell Regional Medical Center – Private Placement Revenue Note	2005-2013	5.08%	1,726,984	2,112,113
Community Medical Center, Inc. – Private Placement Revenue Note	2003-2008	4.26%	804,667	1,199,168
Total Revenue Notes Payable			**$8,132,754**	**$11,192,881**

The notes are payable solely from loan repayments to be made by health institutions pursuant to loan agreements.

4. Notes Receivable

The Notes Receivable include loans made under the Authority's Direct Loan Program. The Short-Term Notes Receivable represents the portion of the loans that are due within the year following the balance sheet date.

Revenue Notes Receivable:
(MFFA Direct Loans)

Issue	Period Outstanding	Interest Rate	Outstanding June 30, 2006	Outstanding June 30, 2005
Residential Support Services	1994-2009	5.53%	0	5,005
Dahl Memorial Healthcare	2001-2006	5.75%	0	1,851
Beartooth Hospital	2001-2006	3.92%	9,075	30,322
Marcus Daly Memorial Hospital	2002-2006	4.53%	16,478	37,598
Missouri River Med.	2002-2006	4.91%	2,313	5,269
Eastern MT Community Mental Health Center	2003-2007	3.23%	12,530	22,197
Central MT Medical Center	2003-2008	3.19%	34,177	53,828
Big Sandy Medical Center	2003-2008	2.73%	36,561	58,335
Northern Rockies Medical Center	2003-2008	2.80%	18,097	27,161
Northeast MT Health Services	2003-2008	3.00%	40,114	60,146
BSW, Inc.	2004-2009	3.53%	73,701	94,732
Ravalli Services	2004-2009	3.53%	40,639	52,235
Region IV Family Outreach	2004-2010	3.53%	0	23,119
Quality Life Concepts	2004-2009	3.53%	35,875	46,112
Eastern MT Community Mental Health Center	2005-2010	3.90%	18,534	23,733
Phillips County Hospital	2005-2010	3.90%	83,094	0
Liberty County Hospital and Nursing Home	2006-2011	4.50%	39,015	0
Region IV Family Outreach	2006-2011	4.48%	83,602	0
Beartooth Hospital and Health Center	2006-2011	4.48%	10,313	0
Northern Rockies Medical Center	2006-2009	4.60%	67,168	0
Boyd Andrew Community Services	2006-2011	4.62%	200,000	0
Total Revenue Notes Receivable			**$821,286**	**$541,643**

5. Employee Benefit Plans

The Authority participates in the Public Employees' Retirement System (PERS), a cost sharing, multiple employer, defined benefit pension plan which covers all employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability and death benefits to plan members and beneficiaries.

The plan issues publicly available annual reports that include financial statements and required supplemental information for the plans. Those reports may be obtained from:

Public Employees Retirement Division
PO Box 200131
100 South Park, Suite 220
Helena, MT 59620-0131
406-444-3154

The Authority and its employees were each required to contribute 6.9 percent of annual compensation for both fiscal years 2006 and 2005.

The Authority's PERS contributions were $8,237 and $7,725 in fiscal years 2006 and 2005, respectively.

Deferred Compensation Plan

The Authority's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. The plan is governed by Internal Revenue Service Code (IRC) Section 457 and Title 19, chapter 50, Montana Code Annotated (MCA). The Small Business Job Protection Act of 1996 resulted in changes to IRC Section 457 and Title 19, chapter 50, MCA. Assets of the deferred compensation plan are required to be held in trust, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

6. Net Assets

Capital Reserve Accounts

Net Assets	Funded 2006	Requirement 2006	Funded 2005	Requirement 2005
Capital Reserve Account A	$1,085,391	$4,723,031	$1,169,461	$4,531,664
Capital Reserve Account B	1,448	1,448	4,748	4,748
Direct Loan Program	1,032,871	1,032,870	798,158	798,158
Working Capital Fund	589,822	589,822	511,828	511,828
Total	$2,709,532	$6,347,171	$2,484,195	$5,846,398

The Montana Legislature approved the creation of Capital Reserve Accounts in section 90-7-317, MCA, as security for the payment of loans in connection with certain bonds or loans issued by the Authority. The Capital Reserve Account A is security that applies to all bonds issued under the Master Loan Program (12 series of bonds), one Stand Alone bond issue for the Montana Developmental Center, surety bonds issued for Prerelease Revenue Bonds (7 series of bonds), and one Covered Loan under the 1985 Pooled Loan Program. These bonds and loans are enhanced by the BOI through the BOI's contract with the Authority to replenish the debt service reserve fund if necessary. The Authority designates certain funds equal to 10% of the par amount of the enhancements provided by the BOI to be deposited to Capital

Reserve Account A. Therefore the Authority has designated a certain portion of the Total Net Assets for loan repayments to the BOI, upon demand, under the Capital Reserve Agreements. The table below shows enhancements provided by the BOI, the Capital Reserve Account requirement and the amount of the Capital Reserve Account requirement that was funded.

	BOI Enhancements	Capital Reserve Account Requirement	Capital Reserve Account Funded
2006	$47,230,309	$4,723,031	$1,085,390
2005	$45,316,641	$4,531,664	$1,169,461

Effective July 1, 1999, the Montana Legislature required the BOI to allow the Authority to make loans totaling up to $15,000,000 of the Permanent Coal Tax Trust Fund for capital projects in section 17-6-308, MCA. Until the Authority makes a loan pursuant to Title 90, Chapter 7, MCA, the funds under its administration must be invested by the BOI. The BOI and the Authority calculate the interest rate on each loan. No new loans were originated under this program during fiscal years 2006 or in 2005. The Authority has issued a total of 5 loans under this authority, one of which is currently outstanding. The outstanding loan amount of approximately $14,476 is reported as investments in the financial statements of the BOI. The Authority designates certain funds up to 10% of the par amount of outstanding loans made from this program as a loan repayment, in the event of a borrower default, in the Capital Reserve Account B. These funds are represented in the Total Net Assets as Capital Reserve Account B. As of June 30, 2006, the total Capital Reserve Account B requirement was $1,448 and was fully funded. As of June 30, 2005, the total Capital Reserve Account B requirement was $4,748 and was fully funded.

Direct Loan Program

The Legislature authorized the Authority to create and fund a revolving Direct Loan Program that provides short-term loans to its non-investment grade clients to finance small capital projects. The Authority has designated a certain portion of the Total Net Assets for this revolving loan program. Deposits to the Direct Loan Program include applicable loan repayments, annual fees, and investment earnings. On November 17, 2005, the Authority board authorized an additional $200,000 of funds under this program. On June 30, 2006 and 2005, the funding requirement for the program was $1,032,870 and $798,158 respectively. As of June 30, 2006 and 2005, respectively, loans of $821,286 and $541,643 were outstanding; leaving $211,586 and $256,516 available for additional loans.

Working Capital Fund

The Authority has designated a working capital fund equal to twice its annual budget. For fiscal years 2006 and 2005 the fund requirement equaled $589,822 and $511,828, respectively and were fully funded. These funds are part of the Total Net Assets balance.

7. Subsequent Events

On July 13, 2006, a bond issue in the amount of $7,920,000 was closed for Alternatives, Inc. Proceeds were used to purchase a Howard Johnson Express Inn and remodel it into a women's prerelease facility plus other program services.

On August 9, 2006, two bond issues were closed to finance the construction of methamphetamine treatment facilities. Bonds in the amount of $9,250,000 were issued for Community Counseling, and Correctional Services, Inc. to finance the construction of an 88-bed men's facility to be located in Lewistown, Montana. Bonds in the amount of $5,085,000 were issued for Boyd Andrew Community Services to finance the construction of a 49-bed women's facility (44 of which were funded with bond proceeds) to be located in Boulder, Montana.

On August 17, 2006, a bond issue in the amount of $30,410,000 was closed for St. John's Lutheran Ministries. Proceeds of the bonds were used for the construction of seven cottages; two of the cottages are for assisted living designed to serve residents in need of memory care support and five cottages will be for skilled nursing. Funds were also used to construct a transitional care unit and to remodel the existing skilled nursing cottages. All projects are located on its existing campus in Billings, Montana. Proceeds were also used to construct a 49 unit apartment consisting of independent assisted living located in Laurel, Montana.

A Direct Loan in the amount of $30,575 was made August 10, 2006 to Northern Rockies Medical Center of Cut Bank, Montana to refinance the purchase of anesthesia equipment.

A loan in the amount of $678,309 from the Trust Fund Loan Program was made August 1, 2006 to Northeast Montana Health Services located in the Montana cities of Wolf Point and Poplar. Funds were used to purchase a CT scanner to be located at the Poplar campus.

A Direct Loan in the amount of $107,000 was made to Region IV Family Outreach, Inc. on September 14, 2006. Funds were used to finance a loan to purchase land and buildings for administrative office use in Helena, Montana.

A loan was made to Glacier Community Health Center, Inc. in the amount of $547,000 on October 5, 2006 from the Trust Fund Loan Program. Funds were used to finance the purchase and remodel of an adjoining building to expand the service area of the clinic, in Cut Bank, Montana.

A loan in the amount of $627,000 from the Trust Fund Loan Program was made on October 5, 2006 to Reach, Inc. of Bozeman, Montana to finance the construction of a main office building and work center to provide vocational services to people with developmental disabilities

A loan in the amount of $6,100,000 was made out of the Variable Rate Program to Bozeman Deaconess Health Services on October 5, 2006 to finance the purchase of equipment.